

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

OFFICE OF VITAL STATISTICS
THEFT OF FUNDS/CASH RECEIPTS
CONTROL PROCEDURES
FOLLOW-UP REPORT

AS OF FEBRUARY 28, 2006

FIELDWORK END DATE: MARCH 28, 2006

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AUDITOR OF ACCOUNTS

Executive Summary

The Office of Auditor of Accounts (AOA) completed a follow-up engagement to determine if the recommendations included in our Special Investigation audit report dated October 14, 2003, concerning the Office of Vital Statistics (OVS) cash receipts control procedures, have been implemented.

The results of the follow-up engagement are summarized below:

Segregation of duties:

- There is adequate segregation of duties among the following tasks: counting the daily receipts, preparing the Daily Report of Fees Received, preparing the bank deposit, and making the deposit at the bank.

Documentation supporting of the Daily Report of Fees Received:

- During the course of our audit period, OVS changed from a cash register to a POS (point of sale) software system called EVRS. The EVRS Individual Cash Drawer Summary Report for each cashier is now agreed and attached to the Daily Report of Fees Received and to the reconciliation.

Management Review:

- Vital Statistics policy, dated September 12, 2003, states that the Vital Statistics manager will review and initial all Daily Fees Reports from each office. The Vital Statistics manager is not initialing the Daily Report of Fees Received for all offices indicating review of the Daily Fees Report. AOA did not see any reports that were initialed by the Vital Statistics manager.
- Random audits are being performed.
- The reconciliation of the certificates issued from the EVRS Activity Report and the Report of Fees Received needs to be documented and reviewed.

Filing System/Control Over Documents:

- The applications are being scanned into digital form and are being cataloged by Simplex number. However, the supporting documentation for the Daily Report of Fees Received is very unorganized and it was difficult to match up the documentation that went with the Daily Report of Fees Received for a particular day or office.

Standardized Policies and Procedures:

- The policies and procedures need to be updated to reflect the current cash close out procedures.

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Audit Authority

Title 29, Del. C., c. 29 authorizes the Auditor of Accounts to perform post audits of all the financial transactions of all State agencies. The audits shall be sufficiently comprehensive to provide, but not limited to, assurance that reasonable efforts have been made to collect all moneys due the State, that all moneys collected or received by any employee or official have been deposited to the credit of the State and that all expenditures have been legal and proper and made only for the purposes contemplated in the funding acts or other pertinent regulations. The Auditor of Accounts shall file written reports covering the Auditor's post audits with the state agency concerned, the Governor, the General Assembly, the Attorney General and the Director of the Office of Management and Budget; and, if the Auditor deems necessary, the Auditor may present special reports to the General Assembly for consideration and action. The audit reports shall set forth:

- (1) Whether all expenditures have been for the purpose authorized in the appropriations therefore;
- (2) Whether all receipts have been accounted for and paid into the State Treasury as required by law;
- (3) All illegal and unbusinesslike practices;
- (4) Recommendations for greater simplicity, accuracy, efficiency and economy; and
- (5) Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary. (29 Del. C. 1953, § 2909; 54 Del. Laws, c. 39, § 9; 70 Del. Laws, c. 186, § 1; 75 Del. Laws, c. 88, § 21(13).)

Background

On January 13, 2003, AOA received a letter from the Department of Justice, Office of the Attorney General, stating that their office was conducting an investigation into missing funds from the Wilmington OVS and requesting that AOA perform an internal control review of the Agency's cash receipts process. An internal audit conducted by the Agency Director of the New Castle County Office revealed \$39,000 in missing cash over a period of seven months. A preliminary investigation conducted by the Attorney General's Office indicated a significant lack of policy and accountability within the agency that allowed this theft to go undetected. The agency has two additional offices in Dover and Georgetown. The Office of the Attorney General subpoenaed the suspects' bank records for the period of January 1, 1996 through October 3, 2002. AOA reviewed those bank records and determined that approximately \$153,000 in cash had been deposited into that account. The information was forwarded to the Office of the Attorney General for incorporation into the theft charge filed against the suspect.

In the report dated October 14, 2003, the following weaknesses were noted:

- A lack of segregation of duties whereby one employee was entrusted to count the daily receipts, prepare the Daily Report of Fees Received, prepare the bank deposit, and make the deposit at the bank.
- The cash register tape, which depicted all activity on a given day, was not attached and compared to the Daily Report of Fees Received that was used by the finance section to reconcile reported deposits to actual bank deposits. A verification of those two instruments would have revealed discrepancies.
- A lack of adequate supervisory oversight afforded employees the opportunity to misappropriate State funds. Management's failure to properly monitor activity at the Wilmington office. No on-site visits were conducted.
- There was no system in place to control the number of documents issued at each site. An inventory of pre-numbered documents was not maintained and documents were issued to sites upon request and not identified. Voided documents were shredded and unaccounted for. In addition, at each site the filing of documents was random and was not organized.
- A lack of comprehensive standardized policies and procedures created an environment where each site operated in its own manner.

During the course of the investigation OVS management updated their policies and procedures governing daily operations, establishing standardization and providing controls over the handling of revenues.

Objective, Scope, and Methodology

OBJECTIVE

The objective of this engagement was to identify and evaluate the adequacy of management actions in response to the findings and recommendations included in the Auditee's Response dated September 30, 2003, to our Special Investigation Report.

SCOPE

The scope of this engagement, a non-audit service, was limited to a follow-up of the October 14, 2003 Report. Testing of the status of the previous recommendations was performed for the period from July 1, 2005 through February 28, 2006.

METHODOLOGY

AOA conducted this engagement in accordance with Generally Accepted Government Auditing Standards (GAGAS). Our procedures consisted of interviews and inquiry of key personnel; inspection and confirmation of documentation; observation of procedures; and performing tests of key controls.

Status of Prior Year Findings and Recommendations

The following table summarizes prior year findings, recommendations, management responses, and the results of the current year follow-up engagement for the October 14, 2003, Special Investigation Report.

Finding	Recommendation	Management Response	Current Year Status*
<i>Segregation of duties</i>			
A lack of segregation of duties whereby one employee was entrusted to count the money received daily, prepare the Daily Report of Fees Received, prepare the bank deposit ticket, and make the deposit at the bank. This lack of segregation of duties would allow missing funds to go undetected.	That appropriate supervisory responsibility is delegated and provided to ensure that the newly established internal control policies and procedures are followed.	During the course of the investigation management updated their policies and procedures governing daily operations, establishing standardization and providing controls over the handling of revenues.	Implemented.
<i>Documentation supporting the Daily Report of Fees Received</i>			
The cash register tape, which depicted all activity on a given day, was not attached to the Daily Report of Fees Received, which was used by the finance section to reconcile reported deposits to actual bank deposits reported through the Cash Receipts reports. A verification of those two instruments would have revealed discrepancies.	That appropriate supervisory responsibility is delegated and provided to ensure that the newly established internal control policies and procedures are followed.	The Vital Statistics Manager will review and initial all Daily Fees Reports and provide a weekly summary to her supervisor. Any discrepancies will be investigated and corrective action will be implemented.	Implemented.

Status of Prior Year Findings and Recommendations

Finding	Recommendation	Management Response	Current Year Status*
<i>Management Review</i>			
A lack of adequate supervisory oversight afforded employees the opportunity to misappropriate State funds. Management failed to properly monitor activity at the Wilmington office, no on-site visits were conducted.	That appropriate supervisory responsibility is delegated and provided to ensure that the newly established internal control policies and procedures are followed.	The Vital Statistics Manager will review and initial all Daily Fees Reports for each office and provide a summary to the supervisor on a weekly basis. Any discrepancies are investigated and explained and corrective action implemented. The Division of Public Health's Support Services Section will perform monthly audits - choosing 3 random dates and will review the Daily Fees Reports from each office for those dates. Staff will explain any discrepancies found and any corrections needed will be implemented.	Partially Implemented. AUDITORS NOTE: No sign-offs indicating reviews of the Daily Report of Fees Received were noted and investigations of discrepancies were not documented. Random audits were being performed but did not address this deficiency. Also, with the implementation of EVRS software, a reconciliation of the certificates issued from the Activity Report generated from EVRS to the Report of Daily Fees received needs to be documented and any variances explained.

Status of Prior Year Findings and Recommendations

Finding	Recommendation	Management Response	Current Year Status*
<i>Filing System/Control over Documents</i>			
There was no system in place to control the number of documents issued at each site. An inventory of pre-numbered documents was not maintained and documents were issued to sites upon request and not identified. Voided documents were shredded and unaccounted for. In addition, at each site the filing of documents was random and was not organized.	The Division of Public Health devise a new filing system for their records, which will provide for easy accessibility and accountability.	The accounting for all pre-numbered certificates issued by each location was implemented. Voided documents are to be retained with the reason for voiding the documents. The completed application forms (both counter and mail) will be filed by date then by simplex number in labeled accordion folders. The most recent three-month period applications will be kept in an active file cabinet in each office. Older applications will be stored in a file cabinet or a labeled box in the same order stated above. Applications will be kept for at least one year or until a successful audit has been conducted by the Office of Auditor of Accounts or other authorized entity. Daily Fees Reports and voided paper will be maintained in a file. DPH Support Services is investigating technological solutions for filing alternatives, (i.e. scanning systems to CDs) due to lack of storage space in	<p>Partially Implemented.</p> <p>AUDITORS NOTE: The Daily Reports of Fees Received were still not being filed in a way that promotes easy accessibility and accountability. The reports were filed in no particular order and AOA had to find the documentation that supported the Daily Report of Fees Received for the days tested. AOA recommends filing the reports with all of the supporting documentation for the Daily Report of Fees Received by day for each location.</p>

Status of Prior Year Findings and Recommendations

Finding	Recommendation	Management Response	Current Year Status*
<i>Filing System/Control over Documents (continued)</i>			
		each of the offices. Additional file cabinets are being ordered to facilitate storage.	
<i>Standardized Policies and Procedures</i>			
A lack of comprehensive standardized policies and procedures created an environment where each site operated in its own manner.	That the standardized policies and procedures are implemented and followed.	During the course of the investigation management updated their policies and procedures governing daily operations, establishing standardization and providing controls over the handling of revenues. The Vital Statistics Manager will work in the Wilmington office one to two days per week to provide training, to observe that policies and procedures are being followed, and to take any necessary corrective action.	Partially Implemented. AUDITORS NOTE: The newly established policies and procedures do not reflect current cash close out procedures. OVS needs to update their policies and procedures to reflect the current close out procedures.

*** Status Key:**

- **Implemented:** The concern has been addressed by implementing the original or an alternate corrective action.
- **Not Implemented:** The corrective action has not been initiated.
- **Partially Implemented:** The corrective action has been initiated but is not complete and the auditor has reason to believe management fully intends to address the concern.

Distribution of Report

Copies of this report have been distributed to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Jennifer Davis, Director, Office of Management and Budget
The Honorable Richard S. Cordrey, Secretary, Department of Finance

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Carl C. Danberg, Attorney General, Office of the Attorney General

Other

The Honorable Vincent P. Meconi, Secretary, Department of Health and Social Services
Ms. Valencia L. Beaty, Director, Division of Management Services, Department of Health and Social Services
Mr. Charles Britton, Deputy Director, Division of Management Services, Department of Health and Social Services
Ms. Melody Lasana, Controller, Division of Management Services, Department of Health and Social Services
Mr. Robert Bubacz, Management Analyst, Division of Management Services, Department of Health and Social Services
Ms. Deborah Clendaniel, Public Health Administrator, Division of Public Health, Department of Health and Social Services